

STATEMENT OF STUART K. PRATT  
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ASSOCIATED CREDIT BUREAUS, INC.  
WASHINGTON, D.C.  
HEARING ON  
IDENTITY THEFT: HOW TO PROTECT AND RESTORE YOUR GOOD NAME

Before the Subcommittee on Technology, Terrorism and Government Information  
of the Senate Committee on the Judiciary  
United States Senate

Washington, D.C.

Wednesday, July 12, 2000

Mr. Chairman and members of the Subcommittee, my name is Stuart Pratt and I am vice president, government relations for the Associated Credit Bureaus, headquartered here in

Washington, D.C. ACB, as we are commonly known, is the international trade association representing over 500 consumer information companies that provide fraud prevention and risk management products, credit and mortgage reports, tenant and employment screening services, check fraud and verification services, and collection services to hundreds of thousands of customers across the United States and the globe.

Our members are the information infrastructure that contributes to the safety and soundness of our banking and retail credit systems; which:

- allows for the efficiencies of a secondary mortgage securities marketplace that saves consumers an average of 2 percentage points on the cost of a mortgage.
- helps e-commerce and bricks-and-mortar businesses authenticate applicant data, thus reducing the incidence of fraud.
- gives child support enforcement agencies the information tools necessary to accomplish their mission.
- allows states to reduce the incidence of many forms of entitlement fraud.

On behalf of ACB, I want to commend you for holding this hearing on the issue of identity theft and for your efforts in the previous Congress, leading to the enactment of the Identity Theft Assumption and Deterrence Act of 1998. Identity theft is an equal-opportunity crime that can affect any of us in this hearing at any time. It is a particularly invasive form of fraud where consumers, consumer reporting agencies and creditors must untangle the snarl of fraudulent accounts and information resulting from a criminal's actions. This task is often frustrating and time-consuming for all concerned.

Before I specifically address how our industry has responded to the needs of creditors and victims of identity theft, I have found it helpful to provide a short review of what a consumer reporting agency is, what is contained in a consumer report, and the law that governs our industry.

## **CONSUMER REPORTING AGENCIES AND CONSUMER REPORTS**

Consumer reporting agencies maintain information on individual consumer payment patterns associated with various types of credit obligations.<sup>1</sup> The data compiled by these agencies is used by creditors and others permitted under the strict prescription of the Fair Credit Reporting Act (15 U.S.C. 1681 et seq.) to review the consumer's file.

Consumer credit histories are derived from, among other sources, the voluntary provision of information about consumer payments on various types of credit accounts or other debts by thousands of data furnishers such as credit grantors, student loan guarantee and child support enforcement agencies. A consumer's file may also include public record items such as a bankruptcy filing, judgment or lien. Note that these types of data sources often contain SSNs as well.

For purposes of data accuracy and proper identification, generally our members maintain information such as a consumer's full name, current and previous addresses, Social Security Number (when voluntarily provided by consumers), date of birth or age, and sometimes places of

employment. This data is loaded into the system on a regular basis to enhance the completeness and accuracy of data.<sup>2</sup>

It is important to note that the vast majority of data in our members' systems simply confirms what you would expect: that most consumers pay their bills on time and are responsible, good credit risks. This contrasts with the majority of systems maintained in other countries, such as Japan, Australia, or Italy, which store only negative data and do not give consumers recognition for the responsible management of their finances.

As important as knowing what we have in our files is also knowing what types of information our members do not maintain in files used to produce consumer reports. Our members do not know what consumers have purchased using credit (e.g., a refrigerator, clothing, etc.) or where they used a particular bank card (e.g., which stores a consumer frequents). They also do not have a record of when consumers have been declined for credit or other benefit based on the use of a consumer report. Medical treatment data is not a part of the databases, and no bank account balance information is available in a consumer report.

### **THE FAIR CREDIT REPORTING ACT (FCRA)**

In addition to our general discussion of the industry, we believe it is important for your Subcommittee to have a baseline understanding of the law that regulates our industry. Enacted in 1970, the Fair Credit Reporting Act was significantly amended in the 104th Congress with the passage of the Credit Reporting Reform Act.<sup>3</sup>

Congress, our Association's members, creditors and consumer groups spent over six years working to modernize what was the first privacy law enacted in this country (1970). This amendatory process resulted in a complete, current and forward-looking statute. The FCRA serves as an example of successfully balancing the rights of the individual with the economic benefits of maintaining a competitive consumer reporting system so necessary to the efficient operation and growth of a market-oriented economy.

The FCRA is an effective privacy statute, protecting the consumer by narrowly limiting the appropriate uses of a consumer report (often we call this a credit report) under Section 604 (15 U.S.C. 1681b), entitled "Permissible Purposes of Reports."

Some of the more common uses of a consumer's file are in the issuance of credit, subsequent account review and collection processes. Reports are also, for example, permitted to be used by child support enforcement agencies when establishing levels of support.

Beyond protecting the privacy of the information contained in consumer reports, the FCRA also provides consumers with certain rights such as the right of access; the right to dispute any inaccurate information and have it corrected or removed; and the right to prosecute any person who accesses their information for an impermissible purpose. The law also includes a shared liability for data accuracy between consumer reporting agencies and furnishers of information to the system.

## **FRAUD PREVENTION AND IDENTITY THEFT**

Let me now turn to our industry's efforts with regard to fraud. Our industry has a history of bringing forward initiatives to address fraud. These efforts focus on use of new technologies, better procedures and education.

Consider the following efforts undertaken during this past decade:

- ACB formed a Fraud and Security Task Force in 1993
- A "membership alert form" was developed for use in notifying other ACB credit bureau members of customers who were committing fraud through the misuse of data. Implemented in 1994.
- A "Universal Fraud Information Form" was developed for use by creditors when communicating the incidence of fraud to national consumer reporting systems.
- The credit reporting industry developed a comprehensive presentation on ACB fraud and security initiatives for delivery to customer segments during 1995.
- Minimum standards for data access equipment and software were announced to industry suppliers in March 1995.
- ACB members have implemented company-specific limitations on the availability of account numbers, and truncation of Social Security Numbers on consumer reports sold to certain customer segments.
- Experian, Equifax and Trans Union voluntarily formed special fraud units with toll-free number service and consumer relations personnel specially trained to work with fraud victims.
- A hardware and software certification program has been created by the industry and administered by a third-party certification authority for those access products, which have implemented industry security standards.
- Over 150,000 copies of a new customer educational brochure entitled "We Need Everyone's Help to Protect Consumer Privacy and Reduce Fraud" have been distributed since its first printing in 4Q.1997. An education program was also developed for use by ACB members in presenting the information found in the brochure. 2nd Q. 1998.
- On March 14, 2000, the ACB announced new voluntary initiatives to assist consumers who have been victimized by identity theft. Following is a description of each initiative and also attached is our press release.
  
- Advocate the use and improve the effectiveness of security alerts through the use of codes transmitted to creditors. These alerts and codes can help creditors avoid opening additional fraudulent accounts.
- Implement victim-assistance best practices to provide a more uniform experience for victims when working with personnel from multiple fraud units.
- Assist identity theft victims by sending a notice to creditors and other report users when the victim does not recognize a recent inquiry on the victim's file.
- Execute a three-step uniform response for victims who call automated telephone systems: automatically adding security alerts to files, opting the victim out of prescreened credit offers, and sending a copy of his or her file within three business days.

- Launch new software systems that will monitor the victim's corrected file for three months, notify the consumer of any activity, and provide fraud unit contact information.
- Fund, through ACB, the development of a series of consumer education initiatives through ACB to help consumers understand how to prevent identity theft and also what steps to take if they are victims.

## **CONCLUSION**

In conclusion, you can see by our actions that our members have a history of combating fraud of all types including identity theft. We were the first industry trade association to form a task force to consider how best to address the plight of victims who through no fault of their own are left with, as we said at the beginning of this testimony, a snarl of fraudulent accounts to deal with.

Along with our progress, there are a few cautionary thoughts that I would like to leave with each of you. It is difficult for laws to prescribe procedures and practices that actually prevent crime. Crime is a moving target and, thus, our fraud prevention strategies must be as agile as the tactics of the criminals.

Information is a key economic growth factor in this country. Laws that limit legitimate and beneficial information use are most likely to take fraud prevention tools out of the hands of legitimate industry. Ironically, to prevent fraud, we must be able to crosscheck information. Absent this ability to authenticate identifying information, we will be less able to prevent the very crime we are discussing here today.

I think the initiatives I have discussed here today provide ample evidence that our industry is serious about doing its part in reducing the crime of identity theft and fraud and in helping consumers restore their good name and an accurate credit file. Just as it is to consumers, the integrity, accuracy and reliability of the credit files our members maintain is vitally important.

Thank you for this opportunity to testify.

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<sup>1</sup>Our members estimate that there are approximately 180 million credit active consumers. Since our members operate in competition with each other, these consumers are likely to have more than one credit history maintained.

<sup>2</sup>Note that there are in fact a number of major credit reporting systems in this country. Within ACB's membership the three most often recognized systems are Equifax, Atlanta, GA; Experian, Orange, CA; and Trans Union, Chicago, IL. These systems not only manage their own data but also provide data processing services for the over 400 local, independently-owned, automated credit bureaus in the Association's membership.

<sup>3</sup>Public Law 104-208, Subtitle D, Chapter 1.

# NEWS RELEASE

Contact: Norm Magnuson Vice President of Public Affairs 202/408-7406  
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## Credit Reporting Industry Announces Identity Theft Initiatives

Associated Credit Bureaus, the international trade association for the consumer reporting industry, announced today a commitment on behalf of the nation's leading credit reporting agencies to voluntarily implement a comprehensive series of initiatives to assist victims of identity theft in a more timely and effective manner.

"While there is no evidence to show that the credit report is a source for identity theft, our industry has always taken an active role in assisting consumers who are fraud victims. Our members have taken this responsibility seriously, and we're very proud of these initiatives that help consumers who are victims of identity theft or fraud," noted D. Barry Connelly, president of Associated Credit Bureaus. "Designing and implementing these initiatives is a significant milestone in the ongoing efforts of our industry to help address the problem of identity theft. As long as there are criminals who prey on innocent consumers, we will continue to seek even better ways to serve consumers and work with law enforcement and our industry's customers to address this threat."

Connelly outlined the industry's six-point program to improve identity theft victim assistance:

- Advocate the use and improve the effectiveness of security alerts through the use of codes transmitted to creditors. These alerts and codes can help creditors avoid opening additional fraudulent accounts.
- Implement victim-assistance best practices to provide a more uniform experience for victims when working with personnel from multiple fraud units.
- Assist identity theft victims by sending a notice to creditors and other report users when the victim does not recognize a recent inquiry on the victim's file.
- Execute a three-step uniform response for victims who call automated telephone systems: automatically adding security alerts to files, opting the victim out of prescreened credit offers, and sending a copy of his or her file within three business days.
- Launch new software systems that will monitor the victim's corrected file for three months, notify the consumer of any activity, and provide fraud unit contact information.
- Fund, through ACB, the development of a series of consumer education initiatives through ACB to help consumers understand how to prevent identity theft and also what steps to take if they are victims.

ACB's initiatives, to be fully implemented within seven months of this announcement, resulted from a task force comprising senior executives from the ACB Board of Directors and former state Attorney General, M. Jerome Diamond. Diamond interviewed consumer victims and law enforcement officials, made on-site visits to credit reporting agency fraud units, and obtained input from privacy advocates. His counsel was an integral part of the decision-making process and influenced the final content of the initiatives.

Connelly said: "Identity theft is a crime that is deeply unsettling for the victims. Our initiatives will make it easier for victims to put their financial lives back together." Connelly stressed, though, that the crime extends beyond individuals to creditors and ACB members and added, "We must all work together in the areas of prevention and victim assistance. We supported the enactment of the Identity Theft Assumption and Deterrence Act of 1998 and have worked with more than half of the state legislatures on similar laws. We urge law enforcement to vigorously investigate and prosecute the criminals."

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